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Testimony

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DOD EXCESS PROPERTY

Management Control Breakdowns Result in Substantial Waste and Inefficiency

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Highlights of GAO-05-729T, a testimony before the Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform, House of Representatives

Why GAO Did This Study

GAO was asked to assess the overall economy and efficiency of the Department of Defense (DOD) program for excess property reutilization (reuse). Specifically, GAO was asked to determine (1) whether and to what extent the program included waste and inefficiency and (2) root causes of any waste and inefficiency. GAO was also asked to provide detailed examples of waste and inefficiency and the related causes. GAO's methodology included an assessment of controls, analysis of DOD excess inventory data, statistical sampling at selected sites, and detailed case studies of many items.

What GAO Recommends

Today, GAO is issuing a report (GAO-05-277) with 13 recommendations to improve the economy and efficiency of DOD's reutilization program for excess commodities in the areas of (1) data reliability; (2) oversight, accountability, and physical inventory control; and (3) the functional design of DOD's future commodity inventory systems. In commenting on GAO's report, DOD concurred that actions are needed to improve the reutilization program and noted a number of improvement initiatives that were taken during fiscal years 2004 and 2005. However, DOD has not yet addressed the fundamental, conceptual weaknesses that have resulted in waste and inefficiency.

www.gao.gov/cgi-bin/getrpt?GAO-05-729T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz (202) 512-9095 or Kutzg@gao.gov.

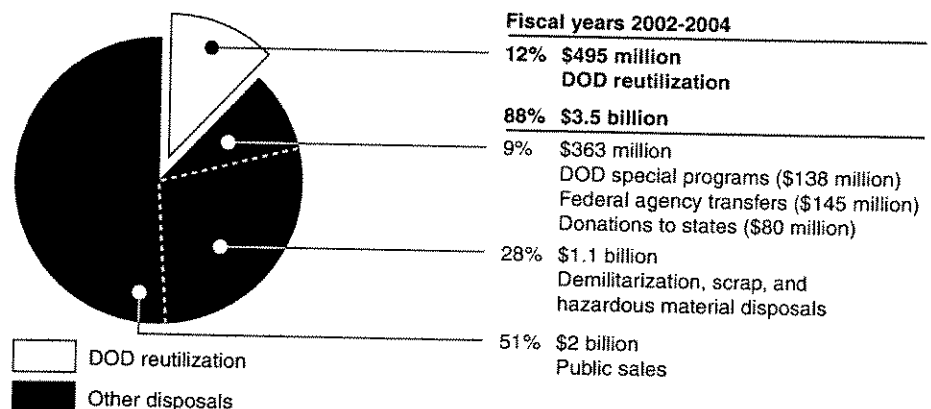
DOD EXCESS PROPERTY

Management Control Breakdowns Result in Substantial Waste and Inefficiency

What GAO Found

DOD does not have management controls in place to assure that excess inventory is reutilized to the maximum extent possible. Of \$33 billion in excess commodity disposals in fiscal years 2002 through 2004, \$4 billion were reported to be in new, unused, and excellent condition. DOD units reutilized only \$495 million (12 percent) of these items. The remaining \$3.5 billion (88 percent) includes significant waste and inefficiency because new, unused, and excellent condition items were transferred and donated outside of DOD, sold for pennies on the dollar, or destroyed. DOD units continued to buy many of these same items. GAO identified at least \$400 million of fiscal year 2002 and 2003 commodity purchases when identical new, unused, and excellent condition items were available for reutilization. GAO also identified hundreds of millions of dollars in reported lost, damaged, or stolen excess property, including sensitive military technology items, which contributed to reutilization program waste and inefficiency. Further, excess property improperly stored outdoors for several months was damaged by wind, rain, and hurricanes.

Waste and Inefficiency Related to \$3.5 Billion in Fiscal Year 2002-2004 Disposals of Excess DOD Commodities Reported To Be in New, Unused, and Excellent Condition



Source: GAO analysis.

GAO ordered and purchased at little or no cost several new and unused excess commodities that DOD continued to buy and utilize, including tents, boots, power supplies, circuit cards, and medical supplies. GAO paid a total of \$2,898, including tax and shipping cost, for these items, which had an original DOD acquisition cost of \$79,649.

Root causes for reutilization program waste and inefficiency included (1) unreliable excess property inventory data; (2) inadequate oversight and physical inventory control; and (3) outdated, nonintegrated excess inventory and supply management systems. Procurement of inventory in excess of requirements also was a significant contributing factor. Improved management of DOD's excess property could save taxpayers at least hundreds of millions of dollars annually.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to discuss the results of our audit and investigation of the economy and efficiency of the Department of Defense (DOD) program for reutilization (reuse) of excess property. Our related report,¹ released today and developed at the request of this Subcommittee, Senator Collins, and Representative Schakowsky, describes significant breakdowns in management controls that have resulted in substantial waste and inefficiency in DOD's excess property reutilization program. Our previous, limited work identified several examples of waste and inefficiency in DOD's excess property reutilization program. Our November 2003 report² identified several examples that showed that at the same time DOD excessed biological laboratory equipment items in good or excellent condition and sold many of them to the public for pennies on the dollar, it was purchasing the same or similar items. In June 2002, we testified³ that the lack of asset visibility over the Joint Service Lightweight Integrated Suit Technology (JSLIST)⁴ resulted in DOD selling new, unused JSLIST for \$3 per suit (coats and trousers) while at the same time procuring hundreds of thousands of JSLIST annually at a cost of over \$200 per suit. You were concerned that these limited examples could indicate systemic problems.

Our current work focused on whether and to what extent we found waste and inefficiency in DOD's excess property reutilization program and the root causes of any waste and inefficiency. You also asked us to determine whether the Defense Logistics Agency (DLA) was purchasing new items when identical items in new, unused, and excellent condition were available at Defense Reutilization and Marketing Service (DRMS) field

¹ GAO, *DOD Excess Property: Management Control Breakdowns Result in Substantial Waste and Inefficiency*, GAO-05-277 (Washington, D.C.: May 13, 2005).

² GAO, *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-15NI (Washington, D.C.: Nov. 19, 2003).

³ GAO, *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

⁴ JSLIST is a universal, lightweight, two-piece garment (coat and trousers) that when combined with footwear, gloves, and protective mask and breathing device, forms the warfighter's protective ensemble. Together, the ensemble is to provide maximum protection to the warfighter against chemical and biological contaminants without negatively impacting the ability to perform mission tasks. JSLIST is the current model protective suit used by the military forces.

offices (DRMO). As DOD's combat support agency, DLA has a mission to provide best-value logistics support to America's armed forces. In carrying out its mission, DLA manages inventory valued at about \$83 billion, consisting of more than 5 million items of food, fuel, clothing and other textiles, medical supplies, industrial use items, and spare and repair parts supporting over 1,400 weapon systems. Within DLA, DRMS is responsible for excess property disposals. Federal regulations⁵ require executive agencies to ensure that personal property not needed by their activity is offered for use elsewhere within the agency. In accordance with federal regulations, DOD 4160.21-M, *Defense Materiel Disposition Manual*, chapter 5, calls for reutilization of excess property to the extent feasible to fill existing needs and to satisfy additional needs before initiating new procurement or repair.

In performing our work, we reviewed applicable laws and regulations; DOD policies and procedures; and current and planned systems, processes, and management controls. To identify potential waste and inefficiencies, we analyzed the universe of recorded commodity purchase and disposal transactions and compared DOD commodity purchases to disposals of identical items in new, unused, and excellent condition (A condition). To assure ourselves that DOD data were sufficiently reliable for the purpose of our work, we performed a number of electronic and statistical tests of DOD databases and excess inventory and data used in our work. We conducted our work, including follow-up work related to this testimony, from November 2003 through May 2005 in accordance with U.S. generally accepted government auditing standards and investigative standards prescribed by the President's Council on Integrity and Efficiency. We obtained DOD comments on a draft of our report, and we briefed DOD officials on new findings included in this testimony.

Today, my testimony will focus on (1) summarizing the results of our audit and updating our analysis for fiscal year 2004 excess commodity disposal activity; (2) describing additional case study acquisitions of new, unused excess DOD commodity items from December 2004 through April 2005; and (3) discussing management control breakdowns that contributed to reutilization program waste and inefficiency and the results of our investigations of selected excess property losses noted in our audit report.

⁵ *Federal Management Regulation*, 41 C.F.R. ch. 102 (2004).

Summary

DOD does not have effective management processes, systems, and controls in place to assure that it is reutilizing excess inventory to the maximum extent possible and safeguarding excess items from damage, loss, and theft, as required by federal regulations, DOD policy, and GAO internal control standards.⁶ Our analysis of DRMS excess commodity disposal activity identified substantial waste and inefficiency related to DOD's excess property reutilization program. For example, of the \$33 billion in reported excess commodity disposals in fiscal years 2002 through 2004, \$4 billion related to items in new, unused, and excellent condition. Of the \$4 billion, we determined that \$3.5 billion (88 percent) included substantial waste and inefficiency because new, unused, and excellent condition items were being transferred or donated outside of DOD, sold on the Internet for pennies on the dollar, or destroyed rather than being reutilized. As discussed in our report,⁷ our analysis of fiscal year 2002 and 2003 data on commodity purchases and disposal activity found that DOD purchased at least \$400 million of identical commodities instead of reutilizing available A-condition excess items. Further, the extent of reutilization waste and inefficiency may be greater due to incomplete and inaccurate data that are key to identifying excess items for reutilization. In addition, the DRMS reported \$466 million in excess property losses from fiscal years 2002 through 2004, such as missing, damaged, and stolen property, adding to reutilization program waste.

Our monitoring of DRMS disposal activity found continuing reutilization program waste and inefficiency. We ordered several excess DOD items at little or no cost and purchased other items at minimal cost. Overall, we paid \$2,898 for items with a listed acquisition cost of \$79,649. For example,

- As discussed in our report, from May through October 2004, we ordered and purchased at little or no cost several new and unused excess commodity items that DOD continued to buy and utilize, including tents; boots; power supplies; circuit cards; gasoline burners; and a medical instrument chest, suction device, and medical supplies and bandages.

⁶ *Federal Property Management Regulations*, 41 C.F.R. ch. 101 (2004) and the *Federal Management Regulation*, 41 C.F.R. ch. 102 (2004), issued by the General Services Administration; DOD 4160.21-M, *Defense Materiel Disposition Manual*; and GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

⁷ GAO-05-277.

We paid a total of \$1,471, including tax, buyer's premium, and shipping cost, for these items, which had an original DOD acquisition cost of \$68,127.

- In addition, from December 2004 through April 2005, we purchased over the Internet several additional new, unused excess commodity items that DOD units are continuing to purchase and utilize. These items included military badges, medals, and insignias; Cooper Trendsetter SE automobile tires; and military dress uniforms. Although these items had an original DOD acquisition cost of \$11,522, we paid a total of \$1,427 for them, including tax, buyer's premium, and shipping cost.

Our analysis, statistical tests of excess inventory accuracy, case studies, and interviews showed that the root causes for the billions of dollars in waste and inefficiency related to management control breakdowns across DOD, including weaknesses in DOD's excess property reutilization program, stemmed from

- unreliable excess property inventory data;
- inadequate oversight, accountability, and physical control of excess property; and
- inadequate processes and outdated, nonintegrated inventory systems that do not provide adequate visibility of excess property available for reutilization at the time military units order and purchase commodity items.

In addition, as we have reported for many years,⁸ long-standing DOD logistics management weaknesses that resulted in purchases that exceeded actual requirements resulted in the disposal of unused items due to obsolescence and contributed indirectly to reutilization program waste and inefficiency. Further, DOD reutilization program waste and inefficiency is symptomatic of the inventory and supply chain management issues that have been considered high risk by GAO since 1990.

⁸ GAO, *Defense Inventory: Analysis of Consumption of Inventory Exceeding Current Operating Requirements Since September 30, 2001*, GAO-04-689 (Washington, D.C.: Aug. 2, 2004), and *Major Management Challenges and Program Risks: Department of Defense*, GAO-03-98 (Washington, D.C.: January 2003).

Our investigations of selected reports of losses of excess DOD commodity items identified a pervasive lack of physical accountability over excess inventory, which leaves DOD vulnerable to the risk of theft and fraud, waste, and abuse. The lack of accountability makes it impossible to complete an investigation. Specifically, the failure to verify and accurately document transactions and events at the beginning of the disposal process and report and investigate losses when they occur obscures or eliminates the audit trail. Because DRMO personnel did not always verify turn-in documentation at the time they received excess items and recorded them in excess inventory, in many cases it is not possible to determine whether discrepancies represent sloppy recordkeeping, the loss or theft of excess property, or where or when the loss or theft occurred. This lack of accountability encourages theft and fraud because there is little likelihood of detection.

We found that DRMS investigative reports are generally inconclusive with regard to the causes of the lost property. For example, the investigative reports on the loss of 75 chemical and biological protective suits at the Jackson DRMO and 20 units of body armor at the Meade DRMO each stated that the items were recorded in inventory, placed in the DRMO warehouse, and subsequently disappeared. According to the investigative reports, no determination was made as to what happened to these items. Our follow-up investigations on DLA supply depot reports of missing aircraft parts at two DLA depots found that depot personnel did not aggressively research events related to the missing items because they assumed that the missing items related to recordkeeping errors, such as the failure to record inventory issues.

In commenting on the recommendations in our audit report, DOD concurred that actions are needed to improve the reutilization program and noted a number of improvement initiatives that were taken during fiscal year 2004 and early in fiscal year 2005. While these actions have made some marginal improvements in the reutilization program, DOD has not yet addressed the fundamental, conceptual weaknesses that have resulted in substantial waste and inefficiency in the excess property reutilization program.

Analysis of Reutilization Program Identifies Billions of Dollars in Waste and Inefficiency

Overall, our analysis of the \$33 billion in reported excess commodity disposals in fiscal years 2002 through 2004 showed that \$4 billion related to items in new, unused, and excellent condition. Of the \$4 billion, we determined that \$3.5 billion (88 percent) included substantial waste and inefficiency because new, unused, and excellent condition items were being transferred or donated outside of DOD, sold on the Internet for pennies on the dollar, or destroyed rather than being reutilized. As discussed in our report, our analysis of \$18.6 billion⁹ in fiscal year 2002 and 2003 excess commodity disposal activity identified \$2.5 billion in excess items that were reported to be in new, unused, and excellent condition (A condition). Although federal regulations and DOD policy require reutilization of excess property in good condition, to the extent possible, our analysis showed that DOD units only reutilized \$295 million (12 percent) of these items. The remaining \$2.2 billion (88 percent) of the \$2.5 billion in disposals of A-condition excess commodities were not reutilized, but instead were transferred, donated, sold, or destroyed. Similarly, our analysis of \$14.3 billion in fiscal year 2004 disposal activity identified \$1.5 billion in excess commodity items that were reported to be in A condition. Of the \$1.5 billion in A-condition excess items, DOD units reutilized \$200 million (13 percent) and transferred, donated, sold, or destroyed the remaining \$1.3 billion (87 percent). We also found that during fiscal years 2002 and 2003, DOD purchased at least \$400 million (over \$200 million each year) of identical items instead of reutilizing available excess items in A condition. To illustrate continuing reutilization program waste and inefficiency, we purchased several new and unused excess DOD commodity items that were being purchased by DLA, were currently in use by the military services, or both. Our analysis of transaction data and our tests of controls for inventory accuracy indicate that the magnitude of waste and inefficiency could be much greater due to military units improperly downgrading condition codes of excess items that are in new, unused, and excellent condition to unserviceable and the failure to consistently record national stock numbers (NSN)¹⁰ needed to identify like items.

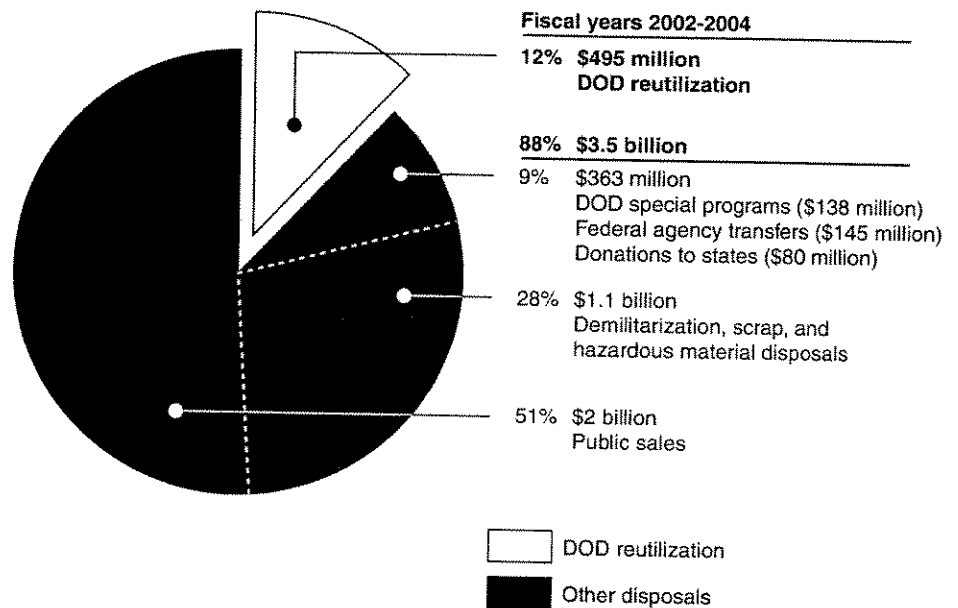
⁹ The reported acquisition value at the time the items were turned in as excess.

¹⁰ An NSN is a 13-digit number that identifies standard use inventory items. The first 4 digits of the NSN represent the Federal Supply Classification, such as 8430 for men's footwear, followed by a 2-digit North Atlantic Treaty Organization (NATO) code (to indicate user countries) and a 7-digit designation for a specific item, such as a cold weather boot.

Fiscal Year 2002-2004 Excess Commodity Disposal Activity

DRMS is responsible for disposing of unusable items, often referred to as “junk,” as well as facilitating the reutilization of usable items. Although the majority of DOD’s excess property disposals relate to items in unserviceable condition, DOD also disposed of billions of dollars of serviceable items, including excess commodities in A condition from fiscal years 2002 through 2004. Our analysis of DRMS data showed that \$28.1 billion of the \$33 billion in excess DOD commodity disposals from fiscal year 2002 through fiscal year 2004 consisted of items listed in unserviceable condition, including items needing repair, items that were obsolete, and items that were downgraded to scrap. The remaining \$4.9 billion in excess commodity disposals consisted of items reported to be in serviceable condition, including \$4 billion in excess commodities reported to be in A condition. However, of the \$4 billion, DOD units reutilized only \$495 million (12 percent) of these items during the 3-year period. The data reliability issues noted above and our interviews, case studies, and statistical sample results indicate that the magnitude of waste and inefficiency associated with disposals of A-condition items could be much greater. As shown in figure 1, items that were not reutilized by DOD were transferred to federal agencies or special programs, donated to states, sold to the public, or destroyed by demilitarization or through scrap and hazardous materials contractors.

**Figure 1: Waste and Inefficiency in Fiscal Year 2002 through Fiscal Year 2004
Disposals of Excess DOD Commodities Reported To Be in New, Unused, and
Excellent Condition**



Source: GAO analysis.

We found that the percentage of DOD reutilization of excess property was higher in fiscal year 2002 than in fiscal years 2003 and 2004. According to DRMO officials, reutilization was higher in fiscal year 2002 because excess items were pulled back to support deployment to Afghanistan and Iraq. In fiscal year 2003, procurement to support the war on terrorism began to keep up with the demand for supplies, and reutilization of excess property decreased. DRMS officials attribute the fiscal year 2004 increase in DOD reutilization to the establishment of the Joint Services Nuclear, Biological, and Chemical Equipment Assessment Program (JEAP) to inspect excess military clothing, tents, and other textile items and reissue items in good condition. The increase in disposal activity in fiscal years 2003 and 2004 relates to turn-ins of property used in support of Operation Enduring Freedom and Operation Iraqi Freedom. Table 1 shows disposal activity related to A-condition excess commodities for fiscal years 2002 through 2004.

Table 1: Fiscal Year 2002 through 2004 Disposals of Excess DOD Commodities in New, Unused, and Excellent Condition

Dollars in millions

Disposal method	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004	Total
DOD reutilization	\$145 (14%)	\$150 (10%)	\$200 (13%)	\$495 (12%)
Special programs	45	46	47	138
Federal agency transfers	58	45	42	145
Donations to states	28	26	26	80
Subtotal, special programs, transfers, and donations	\$131 (12%)	\$117 (8%)	\$115 (8%)	\$363 (9%)
Demilitarization, scrap, and hazardous material disposals	\$102 (10%)	\$532 (37%)	\$480 (32%)	\$1,114 (28%)
Public sales	\$672 (64%)	\$645 (45%)	\$703 (47%)	\$2,020 (51%)
Total disposals	\$1,050 (100%)	\$1,444 (100%)	\$1,498 (100%)	\$3,992 (100%)

Source: GAO analysis.

Unnecessary Commodity Purchases

Our analysis of fiscal year 2002 and 2003 DLA commodity purchases and DRMS excess property inventory data identified numerous instances in which the military services ordered and purchased items from DLA at the same time identical items—items with the same NSN—that were reported to be in new, unused, and excellent condition were available for reutilization. We found that DOD purchased at least \$400 million of identical items during fiscal years 2002 and 2003—over \$200 million each year—instead of using available excess A-condition items. The magnitude of unnecessary purchases could be much greater because NSNs needed to identify identical items were not recorded for all purchase and turn-in transactions. For example, we determined that DLA buyers and item managers did not record NSNs for 87 percent (about \$4.9 billion) of the nearly \$5.7 billion in medical commodity purchases by military units during fiscal years 2002 and 2003. Further, as discussed later, improper downgrading of condition codes to unserviceable could also result in an understatement of the magnitude of unnecessary purchases. While our statistical tests found a few instances of inaccurate serviceable condition codes, most condition code errors related to the improper downgrading of condition to unserviceable.

Fiscal Year 2004 and 2005 Requisitions and Purchases Demonstrate Continuing Waste and Inefficiency

To determine whether the problems identified in our analysis were continuing, we monitored DRMS commodity disposal activity from May 2004 through April 2005. We found that DOD continued to transfer, donate, and sell excess A-condition items instead of reutilizing them. To illustrate these problems, we requisitioned several excess new and unused items at no cost and purchased other new and unused commodities at minimal cost. We based our case study selections on new, unused items that DOD continued to purchase. As discussed in our report,¹¹ we used the GSA Federal Disposal System, available to all federal agencies, to requisition several new and unused excess DOD commodity items during our audit in fiscal year 2004 and the first half of fiscal year 2005, including a medical instrument chest, two power supply units, and two circuit cards, at no charge. These items had an original DOD acquisition cost of \$55,817, and we paid only \$5 shipping cost to obtain all of them. We also purchased, at minimal cost, several excess DOD commodity items in new and unused condition over the Internet at govliquidation.com—the DRMS liquidation contractor's Web site.¹² The items we purchased included tents, boots, three gasoline burners (stove/heating unit), a medical suction apparatus, and bandages and other medical supply items with a total reported acquisition cost of \$12,310. We paid a total of \$1,466 for these items, about 12 cents on the dollar, including buyer's premium, tax, and shipping cost.

From December 2004 through April 2005, we purchased several new, unused excess DOD commodity items, including over 8,000 military badges, medals, and insignias; 8 new, unused Cooper Trendsetter SE tires; and Class A military uniforms. Although these items had a total reported acquisition cost of \$11,522, we paid a total of \$1,427 for these items, including tax, buyer's premium, and shipping cost.

New, unused DOD badges, medals, and insignias. On December 6, 2004, we purchased 8,526 excess DOD badges, medals, and insignias that are used to indicate rank, the unit or program to which a military member or civilian employee is assigned, or service awards. These items had a reported acquisition cost of \$9,518. We paid a total of \$1,102, including buyer's premium and tax, for these items—about 12 cents on the dollar. Units and program areas designated by the badges and insignias include

¹¹ GAO-05-277.

¹² Government Liquidation, LLC is the DRMS commercial venture partner (contractor) for public sales of excess DOD property.

Army Rangers, Mountain, and Airborne; Air Force Air Traffic Controller; and DOD Scientific Consultant. Rank insignias include Air Force Chief Master Sergeant and Air Force Technical Sergeant; Navy Captain, Midshipman Lieutenant, and Midshipman Lieutenant Commander; and Army Command Sergeant Major and Master Sergeant. The listed condition code of these items ranged from A4 (serviceable, usable condition) to H7 (unserviceable, condemned condition). However, our inspection of the badges and insignias that we purchased showed that none of them had been used, and many of them were in original manufacturer packages. Further, DOD is continuing to purchase and use most of these items. The photograph in figure 2 shows examples of some of the badges, medals, and insignias that we purchased.

Figure 2: Examples of Excess DOD Badges, Medals, and Insignias Purchased over the Internet in December 2004



Source: GAO.

New, unused excess DOD tires. We purchased eight new, unused Cooper Trendsetter SE 13-inch steel-belted radial tires on February 18, 2005. According to the Army project officer, these tires are used on over-the-road passenger vehicles, and one customer ordered them for use on a

forklift. DOD units are continuing to purchase and use these same tires. The most recent purchase of 50 of these tires was made in April 2005. The eight tires had a total reported acquisition value of \$404. We paid \$113 for the tires, including buyer's premium and tax, and an additional \$154 shipping cost. The tires were listed in A4 condition (usable, with some wear). However, we found that the tires still had manufacturer labels on the tread and blue paint over the whitewalls, indicating that they were new and unused. The tires were turned in as excess by the North Island Naval Air Station's Aircraft Intermediate Maintenance Detachment. According to the Army Tank Automotive and Armaments Command Project Officer,¹³ the NSN listed on the turn-in document was incorrect. We found that inaccurate item descriptions, including NSNs, prevent items from being selected for reutilization. Figure 3 is a photograph of the excess DOD tires that we purchased over the Internet in February 2005.

Figure 3: New, Unused Excess Cooper Trendsetter SE Tires Purchased over the Internet in February 2005



Source: GAO.

¹³ The Army has product management responsibility for these tires.

New, unused Class A military uniforms. We purchased several Class A military uniforms over the Internet on April 7, 2005. The uniforms were listed as being in H7 (unserviceable, condemned) condition. Although the uniforms that we purchased over the Internet from DOD's liquidation contractor had a listed acquisition cost of \$1,600, we paid a total of \$58, including buyer's premium and sales tax, to acquire them—about 4 cents on the dollar. After receiving our purchase we determined that we had in fact purchased 27 new, unused uniform coats; 4 pairs of new, unused uniform trousers; 54 jackets in excellent condition; 45 pairs of trousers in excellent condition; and 5 women's uniform skirts and 1 pair of slacks in excellent condition. DOD is continuing to purchase and issue two of the four types of trousers that we purchased over the Internet. According to the DLA clothing and textiles product manager for dress uniforms, the Army switched from a matte finish gold button to a shiny sta-brite™ gold button on October 1, 2003. Although the Army ordered and paid for the new replacement buttons for existing dress uniforms, it later determined that hiring a contractor to replace the buttons or sending the coats back to the manufacturers for button replacement would be very expensive. The Army decided to use the coats with the older buttons to fill Reserve and Junior Reserve Officer Training Corps (ROTC and JROTC) orders until current supplies are exhausted. However, our monitoring of DOD liquidation sales found that many class A uniforms with the older buttons are being sold over the Internet for pennies on the dollar instead of being issued to ROTC and JROTC. In addition, we observed the new sta-brite™ buttons being sold over the Internet in May 2005. Figure 4 is a photograph of one of the excess new, unused Class A uniforms with the matte finish buttons that we purchased over the Internet in April 2005.

Figure 4: New, Unused Excess Class A Uniforms Purchased in April 2005




Source: GAO.

We also purchased an earlier sales lot of the same Class A military uniforms over the Internet on February 16, 2005. Our winning bid was \$81 for 166 uniform jackets and trousers, which had a listed acquisition cost of \$10,424. However, when we arrived at the Great Lakes sales location near Chicago to pick up the uniforms, DOD liquidation contractor personnel were unable to locate them. Contractor personnel explained that our purchase may have been mistakenly given to another customer. To compensate, we were offered other items available for sale. However, these items were not in A condition. Instead of accepting them, we requested and received a refund. As discussed later, another of our Internet purchases was damaged due to a leaky roof at the Norfolk liquidation sales location.



Management Control Breakdowns Resulted in Reutilization Program Waste and Inefficiency

The \$3.5 billion in DOD waste and inefficiency that we identified in our analysis of fiscal year 2002 through 2004 excess property disposal activity stemmed from management control breakdowns across DOD. Key factors in the overall DRMS management control environment that contributed to waste and inefficiency in the reutilization program included (1) unreliable excess property inventory data; (2) inadequate DRMS oversight, accountability, physical control, and safeguarding of property; and (3) outdated, nonintegrated excess inventory and supply systems. In addition, for many years our audits of DOD inventory management¹⁴ have reported that continuing unresolved logistics management weaknesses have resulted in DOD purchasing more inventory than it needed. DOD reutilization program waste and inefficiency is symptomatic of the inventory and supply chain management issues that have been considered high risk by GAO since 1990. Our analysis of fiscal year 2002 through fiscal year 2003 excess commodity turn-ins showed that \$1.4 billion (40 percent) of the \$3.5 billion of A-condition excess items consisted of new, unused DLA supply depot inventory. Our analysis of fiscal year 2004 excess commodity turn-ins showed that \$1.3 billion (48 percent) of the \$2.7 billion of A-condition excess items consisted of new, unused DLA supply depot inventory.



Unreliable Data Impair the Economy and Efficiency of the Reutilization Program

Our interviews, case studies, screening visits, and statistical tests of excess commodity inventory led us to conclude that unreliable data are a key cause of the ineffective excess property reutilization program. GAO's internal control standards¹⁵ require assets to be periodically verified to control records. In addition, DRMS policy¹⁶ requires DRMO personnel to verify turn-in information, including item description, quantity, condition code, and demilitarization code, at the time excess property is received and entered into DRMO inventory. However, we found that DRMS and DLA supply depot management have not enforced this requirement. Further, Army, Navy, and Air Force officials told us that unreliable data are a disincentive to reutilization because of the negative impact on their

¹⁴ GAO-04-689 and GAO-03-98.

¹⁵ GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

¹⁶ DRMS-I 4160.14, vol. II, *Instructions for Warehousing for DRMS and the Defense Reutilization and Marketing Offices*, ch. 2, "Receipt and Storage," § 1 (A) (9).

operations. DLA item managers told us that because military units have lost confidence in the reliability of data on excess property reported by DRMS, for the most part they have requested purchases of new items instead of reutilizing excess items. Military users also cited examples of damage to excess items during shipment that rendered the items unusable. In addition, other reutilization users advised us of problems related to differences in quantities and the types of items ordered and received that could have a negative impact on their operations.

Problems with Excess Inventory Items Noted by Military Services and Other Users

Military service officials also told us about the types of problems they have experienced with property acquired from DRMOs. Army, Navy, and Air Force medical officials, in particular, told us that they do not reutilize excess medical items stored at DRMOs because items can become damaged during shipment to and movement within the DRMO warehouses. Other users of excess DOD property, including special program, federal agency, and state officials gave us numerous examples of problems they encountered with requisitions of excess DOD property. Several officials noted that these problems have caused them to lose confidence in the reutilization process. The following examples are typical of what we were told.

- An Army official told us that he requisitioned 20 excess padlock sets. When he received the padlocks the keys were missing. After his second attempt to requisition excess DOD padlocks with keys failed, he threw the padlocks in a dumpster because they were useless to him and it would cost too much to return them to the DRMO.
- An Army official told us that items may be in new, unused condition when they leave the DRMO, but are damaged during shipment. The official cited his experience with an order of thin copper sheets for use in testing electronic equipment. The sheeting was shipped on a pallet that was too small and other material was stacked on top of it.
- A Fairchild Air Force Base official told us that the 92nd Logistics Readiness Squadron requisitioned 80 sleeping bags from the Hawaii DRMO but only received 56 of them. The official told our investigators that the sleeping bags were sealed in heavy-duty plastic bags and were in excellent condition. However, some of the boxes the sleeping bags were shipped in had been damaged by rain and handling by the time he received them.

Statistical Samples Identified
Problems with Excess Inventory
Accuracy

Our statistical tests found significant problems with controls for assuring the accuracy of excess property inventory. Estimated error rates for the five DRMOs we tested ranged from 8 percent at one DRMO to 47 percent at another,¹⁷ and estimated error rates for the five DLA supply depots we tested ranged from 6 percent to 16 percent,¹⁸ including errors related to physical existence of turn-ins and condition code.¹⁹ Our condition code tests determined whether the condition code was accurately recorded as serviceable or unserviceable. We estimated that errors related to condition code accuracy ranged from 6 percent to 26 percent at the 5 DRMOs we tested.²⁰ Overall, we found that DRMO errors were caused by erroneous turn-in documentation prepared by military units and the failure of DRMO personnel to verify turn-ins at the time they were received and correct errors before recording the receipts in excess inventory. Most DLA supply depot errors related to untimely recording of transactions for changes in inventory status and inaccurate quantities. We did not find problems with condition codes at the DLA depots.

An example from our Norfolk DRMO statistical sample illustrates how erroneous inventory data can result in waste and inefficiency. On June 30, 2004, the Navy's Environmental Health Center in Portsmouth, Virginia, turned in six new, unused Level III biological safety cabinets²¹ with a total acquisition cost of \$120,000. The Navy unit turned in the Level III cabinets as excess because of erroneous specifications that resulted in ordering cabinets that were too large and cumbersome to meet deployment needs.

¹⁷ Sampling errors for our DRMO estimates did not exceed 10 percentage points at the 95-percent confidence level.

¹⁸ Sampling errors for our DLA supply depot estimates did not exceed 7 percentage points at the 95-percent confidence level.

¹⁹ Our physical existence tests included whether turn-ins recorded in inventory could be located, whether inventory changes were recorded within 7 days, and the accuracy of item descriptions (including item name(s) and NSN(s)) and quantities. Although some transactions included more than one type of error, we only counted one failure for a transaction.

²⁰ Sampling errors for our DRMO estimates did not exceed 11 percentage points at the 95-percent confidence level.

²¹ The technical name for these safety cabinets is closed loop containment isolators.

The Navy unit improperly used a local stock number (LSN)²² to describe the safety cabinets on the turn-in document and a demilitarization code that indicated there were no restrictions on the disposal of these items. However, Level III safety cabinets are subject to trade security controls,²³ and therefore they are required to be identified by an NSN or other information that accurately describes the item, the end item application, and the applicable demilitarization code.²⁴ Further, the DOD risk assessment performed in response to a recommendation in our November 2003 report²⁵ called for Level III biological safety cabinets to be destroyed when no longer needed by DOD. Although Norfolk DRMO personnel advised DRMS officials of the need to correct the turn-in document errors in July 2004, as of the end of our audit in February 2005, the information had not been corrected and the safety cabinets had not been posted to the DRMS reutilization Web page to indicate that they were available for reutilization.

Our in-house scientists who often meet with DOD scientists at the U.S. Army Biological Warfare Research Center at the Dugway Proving Ground learned that the DOD scientists were planning to purchase a Level III safety cabinet and informed them of the availability of the six Level III safety cabinets at the Norfolk DRMO. The DOD scientists told us that they were unaware the Navy had excessed the safety cabinets and said that they could use all six of them. We subsequently confirmed that as a result of our efforts, the DOD scientists at Dugway had requisitioned the six Level III safety cabinets for reutilization.

²² An LSN consists of the four-digit federal supply classification number, a two-digit NATO code (user country code), and up to a seven-character description, such as "monitor" for a computer monitor and "boots" for cold weather boots.

²³ Commerce Control List, 15 C.F.R. pt. 774, supp. 1, category 2, Materials Processing, para. f (2), Protective and Containment Equipment (2005).

²⁴ DOD 4160.21-M-1, *Defense Demilitarization Manual*, ch. 1, § D (6), and app. 5 (B), and DRMS-I 4160.14, vol. VII, ch. 3, "MLI/CCLI – Disposal Processing and Demilitarization," para. A (2)(d).

²⁵ GAO-04-15NI.



Weaknesses in Reutilization Program Oversight and Physical Inventory Control

We found hundreds of millions of dollars in potential waste and inefficiency associated with the failure to safeguard excess property inventory from loss, theft, and damage. As previously discussed, our statistical tests of excess commodity inventory at five DRMOs and five DLA supply depots identified significant numbers of missing items. Because the DRMOs and DLA supply depots had no documentation to show that these items had been requisitioned or sent to disposal contractors, they cannot assure that these items have not been stolen. According to DRMS data, DRMOs and DLA supply depots reported a total of \$466 million in excess property losses related to damage, missing items, theft, and unverified adjustments over a period of 3 years. However, as discussed below, we have indications that this number is not complete. Also, because nearly half of the missing items reported involved military and commercial technology that required control to prevent release to unauthorized parties, the types of missing items were often more significant than the number and dollar value of missing items.



Excess Property Losses

Weaknesses in accountability that resulted in lost and stolen property contributed to waste and inefficiency in the excess property reutilization program. As shown in table 2, our analysis of reported information on excess property losses at DRMOs and DLA supply depots found that reported losses for fiscal years 2002 through 2004 totaled \$466 million. Because 43 percent of the reported losses related to military technology items that required demilitarization controls,²⁶ these weaknesses also reflect security risks. GAO *Standards for Internal Control in the Federal Government*²⁷ require agencies to establish physical control to secure and safeguard assets, including inventories and equipment, which might be vulnerable to risk of loss or unauthorized use. Our investigations of reported losses found that the failure to verify and accurately document transactions and events at the beginning of the disposal process and report and investigate losses as they occur obscures or eliminates the audit trail. Weaknesses in accountability leave DOD vulnerable to the risk of theft, and fraud, waste, and abuse with little risk of detection.

²⁶ DOD 4160.21-M-1, *Defense Demilitarization Manual*, ch. 1.

²⁷ GAO/AIMD-00-21.3.1.

Table 2: Reported DRMS Excess Property Losses and Adjustments

Dollars in millions				
Location	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004	Total
DRMOs	\$81	\$47	\$62	\$190
DLA supply depots	67	95	114	276
Total	\$148	\$142	\$176	\$466

Source: Unaudited DRMS data.

DRMO losses. Our statistical samples identified missing turn-ins at two of the five DRMOs we tested and missing quantities at all five DRMOs tested, including many items that were in new, unused, and excellent condition. Because DRMO officials did not have documentation to show whether these items had been reutilized, transferred, sold, or destroyed, there is no assurance of whether the missing items reflected bookkeeping errors or if they related to theft. Missing items in our statistical samples included turn-ins of 72 chemical and biological protective suits, 21 pairs of chemical and biological protective gloves, 47 wet weather parkas that were subject to demilitarization controls, and 7 sleeping bags, a cold weather coat, computer equipment, and various other items. Reported DRMO losses included 76 units of body armor, 75 chemical and biological protective suits (in addition to those identified in our Columbus DRMO sample),²⁸ 5 guided missile warheads,²⁹ and hundreds of military cold weather parkas and trousers and camouflage coats and trousers. Three DRMOs—Kaiserslautern, Meade, and Tobyhanna—accounted for \$840,147, or about 45 percent, of the nearly \$1.9 million in reported fiscal year 2004 losses of military clothing and equipment items requiring demilitarization.

Our follow-up investigations found a pervasive lack of physical accountability over excess inventory, which leaves DOD vulnerable to the risk of theft and fraud, waste, and abuse. In many cases, it is not possible to determine whether discrepancies represent sloppy recordkeeping or the

²⁸ The missing chemical and biological protective suits are not the current JSLIST, and the missing body armor is not the ceramic technology currently in use by deployed troops.

²⁹ In accordance with DOD 4160.21-M, ch. 4, "Property Requiring Special Processing," § B, and DRMS-I 4160.14, vol. VII, "Instructions for Demilitarization for DRMS and the Defense Reutilization and Marketing Offices," ch. 1, para. G, such items are required to be inert before turn-in to a DRMO.

loss or theft of excess property due to the failure to verify turn-in documents and correct errors at the time excess items were received at the DRMOs.

In the case of our Columbus DRMO sample, we found that inventory records were not adjusted for missing quantities in our sample. Instead, DRMO personnel recorded the entire amount of the listed quantities as being transferred to either the liquidation sales contractor or the Joint Service Nuclear Biological and Chemical Equipment Assessment Program (JEAP) for inspection and reissue of military clothing and equipment. Our review of transaction data for Columbus DRMO transfers showed that JEAP did not confirm most of the items reported as transferred. For example, JEAP confirmed receiving only 7 of the 17 turn-ins of clothing and textile items. Further, the Columbus DRMO recorded a transaction to show that the 72 chemical and biological protective suits identified as missing during our statistical tests of Columbus DRMO inventory were transferred to JEAP on November 10, 2004. However, our follow-up with JEAP officials found that they have no record of receiving the protective suits. The Columbus DRMO's apparent manipulation of the inventory data avoided reporting the missing items as losses.

Our follow-up investigations of other selected DRMO losses found the following.

- An Air Force turn-in of 75 chemical and biological protective suits was received, placed in the Shaw RIPL (a receipt in place location under authority of the Jackson DRMO) warehouse on May 28, 2002, and subsequently disappeared. DRMO personnel told DRMS investigators that the 75 protective suits may have been included in a November 15, 2002, shipment to the Jackson DRMO in South Carolina. However, because DRMO personnel recorded box counts instead of turn-in document numbers and item counts, there is no detailed record of the items that were shipped between the two excess property warehouses.
- Twenty units of body armor reported lost at the Meade DRMO initially had been ordered by Israel on November 8, 2000. Our investigators confirmed that the body armor was never picked up for shipment to Israel. According to the loss report, the items were relocated from the shipping area to the demilitarization storage area of the DRMO on May 8, 2002. A loss investigation was initiated by the Area Manager for the Meade DRMO in March 2004. However, because the Meade DRMO

contractor had improperly destroyed inventory records after 2 years, attempts to determine the events surrounding the loss were fruitless.

- Our investigation of 18 reports on a total of 52 units of body armor missing from the Hood DRMO during fiscal years 2002 and 2003 determined that these items were stored outside in an unsecure area resulting in the theft of at least 48 units of body armor. A DRMS investigative report noted that items requiring demilitarization had been stored in this area over a 2-year period, even though the security fence had barbed wire that was cut or missing and the high ground level outside the fence provided easy access. According to a DRMO official, a work order for the fence repair had been submitted but the repairs had not been made.
- The Naval Operational Logistics Support Center-Ammo, which was responsible for a turn-in of guided missile warheads, the DRMO that received these items, and the Demilitarization Center each recorded a different quantity for the turn-in. However, quantity discrepancies were not resolved at any point during the turn-in and disposal process. As a result, there is no audit trail to determine whether or where, when, or how the reported loss or a recordkeeping error occurred. For example, the Navy unit reported a turn-in of 24 warheads that had been used in testing but were certified as inert. DRMO personnel counted canisters and loose components and determined there were 32 warheads. The Anniston Demilitarization Center reported that a total of 27 warheads were received for destruction.

DLA supply depot losses. Our statistical samples showed missing items at four of the five DLA supply depots that we tested. Because depot officials did not have documentation showing that these items had been reutilized or sold, there is no assurance that the missing items did not relate to theft. Missing items in our DLA depot statistical samples included several sensitive items, such as classified radio frequency amplifiers and circuit boards, aircraft parts, and computer equipment that required trade security or demilitarization controls.

We obtained DRMS data on DLA supply depot reports of excess property losses, including missing and damaged property and unverified adjustments. We investigated reported losses of selected aircraft parts at two DLA supply depots—Oklahoma City and Warner Robins—that reported the largest amount of depot losses. DLA Directive 5025.30, *DLA One Book*, includes a section on Inventory Adjustment Research (dated

October 21, 2004), which sets inventory accuracy goals for DLA supply depots and requires causative research—an in-depth investigation—of adjustments for selected items³⁰ and suspected fraud, waste, and abuse to determine why they occurred. A Financial Liability Investigation of Property Loss is required if the adjustment meets specific criteria, including (1) gains or losses of classified or sensitive material; (2) an adjustment in excess of \$2,500 for pilferable material; and (3) a loss where there is a suspicion of fraud, theft, or negligence. However, we found that DLA depot personnel did not thoroughly investigate most adjustments related to reported losses of sensitive items with demilitarization controls that we selected for investigation. Supply depot officials told us that they assumed the losses represented inventory recordkeeping errors, even though causative research results were inconclusive.

Property Damage

In addition to reported losses, we found significant instances of property damage at DRMS liquidation contractor sales locations. Because the terms and conditions of liquidation sales specify that all property is sold “as is” and assigns all risk of loss to buyers, the buyers have no recourse when property is damaged after being sold or is not in the advertised condition. As a result, customers who have lost money on bids related to damaged and unusable items might not bid again, or they may scale back on the amount of their bids in the future, affecting both the volume of excess DOD items liquidated and sales proceeds. On October 7, 2004, we purchased numerous usable items in original manufacturer packaging, including 35 boxes of bandages, 31 boxes of gauze sponges and surgical sponges, 12 boxes of latex gloves, and 2 boxes of tracheostomy care sets. We paid a total of \$167, including buyer's premium, tax, and transportation cost, for these items, which had a reported total acquisition cost of \$3,290. However, these items had become damaged due to rain and a leaky roof at the Norfolk, Virginia, liquidation sales location.

The majority of property damage that we observed at liquidation contractor sales locations is primarily the result of DRMS management decisions to send excess DLA supply depot property to two national liquidation sales locations without assuring that its contractor had sufficient human capital


³⁰ DOD 4000.25-2-M, *Military Standard Transaction Reporting and Accountability (MILSTRAP)*, (Change 2, Apr. 28, 2003), Ch. 7, “Physical Inventory Control,” Section C7.9.3.2, identified selected items as classified and sensitive items regardless of dollar value, pilferable items, controlled inventory items, with an extended value greater than \$2,500, and all adjustments with an extended value of greater than \$16,000 or greater than 25 percent unit variance and greater than \$5,000.

resources and warehouse capacity to process, properly store, and sell the volume of property received. For example, excess DOD property sent to the Huntsville, Alabama, liquidation sales location was stored outside unprotected from weather, including sun, wind, rain, and hurricanes during the summer and fall of 2004. The liquidation contractor's failure to record these items in sales inventory at the time they were received, when combined with lost and illegible property labels due to weather damage, resulted in a significant loss of accountability for many of these items.

Outdated, Nonintegrated Systems Impair Economy and Efficiency

Inefficient, nonintegrated excess inventory and supply management systems lack controls necessary to prevent waste and inefficiency in the reutilization program. For example, because the DRMS Automated Inventory System (DAISY) and DLA's Standard Automated Materiel Management System (SAMMS) are outdated and nonintegrated, they do not share information necessary to (1) identify and alert DLA item managers of excess property that is available to fill supply orders and (2) prevent purchases of new items when A-condition excess items are available for reutilization. We have continued to report³¹ that long-standing weaknesses with DLA's inventory systems related to outdated, nonintegrated legacy systems and processes result in DOD and military units not knowing how many items they have and where these items are located. DLA has acknowledged serious deficiencies in its automated inventory management systems. Although DLA has an effort under way to replace SAMMS with the Business Systems Modernization (BSM) and DRMS has a Reutilization Modernization Program (RMP) under way to upgrade DAISY, so far these have been separate, uncoordinated efforts and they do not adequately address identified process deficiencies. While the systems improvement efforts are intended to integrate supply and excess inventory systems to support the reutilization program, they are not focused on resolving long-standing problems related to unreliable condition code data and incomplete data on NSNs. The accuracy of these two data elements is critical to the ability to identify like items that are available for reutilization at the time purchases are made.


³¹ GAO, *DOD Business Systems Modernization: Billions Continue to Be Invested with Inadequate Management Oversight and Accountability*, GAO-04-615 (Washington, D.C.: May 27, 2004); *DOD Business Systems Modernization: Longstanding Management and Oversight Weaknesses Continue to Put Investments at Risk*, GAO-03-553T (Washington, D.C.: Mar. 31, 2003); and *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).



Concluding Comments


To effectively address problems with reutilization program waste and inefficiency, DRMS and DLA will need to exercise strong leadership and accountability to improve the reliability of excess property data; establish effective oversight and physical inventory control; and develop effective integrated systems and processes for identifying and reutilizing excess property. In addition, the military services will need to provide accurate information on excess property turn-in documentation, particularly data on condition codes, and item descriptions, including NSNs that are key to identifying items for reutilization. Improved management of DOD's excess property and a strong reutilization program would help save taxpayers hundreds of millions of dollars annually.


Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. We would be pleased to answer any questions that you may have.




Contacts and Acknowledgments

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